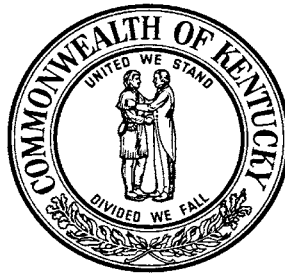


**REPORT OF THE AUDIT OF THE
PENDLETON COUNTY
SHERIFF'S SETTLEMENT - 2001 TAXES**

April 22, 2002



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
PENDLETON COUNTY
SHERIFF'S SETTLEMENT - 2001 TAXES**

April 22, 2002

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2001 Taxes for Pendleton County Sheriff as of April 22, 2002. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$3,627,484 for the districts for 2001 taxes, retaining commissions of \$130,897 to operate the Sheriff's office. The Sheriff distributed taxes of \$3,493,909 to the districts for 2001 Taxes. Taxes of \$1,856 are due to the districts from the Sheriff and refunds of \$362 are due to the Sheriff from the taxing districts.

Deposits:

As of November 6, 2001, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$206,617 of public funds uninsured and unsecured.

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Henry W. Bertram, Pendleton County Judge/Executive
Honorable Lark O'Hara, Pendleton County Sheriff
Members of the Pendleton County Fiscal Court

Independent Auditor's Report

We have audited the Pendleton County Sheriff's Settlement - 2001 Taxes as of April 22, 2002. This tax settlement is the responsibility of the Pendleton County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Pendleton County Sheriff's taxes charged, credited, and paid as of April 22, 2002, in conformity with the modified cash basis of accounting.



To the People of Kentucky
Honorable Paul E. Patton, Governor
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Honorable Lark O'Hara, Pendleton County Sheriff
Members of the Pendleton County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated November 8, 2002, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$206,617 To Protect Deposits

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
November 8, 2002

PENDLETON COUNTY
LARK O'HARA, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2001 TAXES

April 22, 2002

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 491,090	\$ 500,421	\$ 1,462,109	\$ 505,972
Tangible Personal Property	32,587	28,358	81,905	149,879
Intangible Personal Property				11,427
Increased Through Erroneous Assessments	849	982	2,526	874
Omitted Taxes	91	123	276	97
Current Year Franchise	76,575	67,715	201,723	
Prior Years Franchise	14,115	13,048	39,458	
Additional Billings	982	878	2,923	1,012
Limestone, Sand, and Mineral Reserves	2,586	2,312	7,699	2,664
Bank Franchises	29,592			
Penalties	4,364	4,321	12,942	4,545
Adjusted to Sheriff's Receipt	(554)	(421)	(1,448)	(574)
Gross Chargeable to Sheriff	<u>\$ 652,277</u>	<u>\$ 617,737</u>	<u>\$ 1,810,113</u>	<u>\$ 675,896</u>
<u>Credits</u>				
Exonerations	\$ 2,004	\$ 1,923	\$ 5,968	\$ 2,065
Discounts	7,640	7,148	20,723	9,728
Delinquents:				
Real Estate	11,636	11,025	34,643	11,988
Tangible Personal Property	170	148	428	429
Current Year Franchise Uncollected	189	165	478	
Prior Years Franchise Uncollected	9	8	24	
Total Credits	<u>\$ 21,648</u>	<u>\$ 20,417</u>	<u>\$ 62,264</u>	<u>\$ 24,210</u>
Taxes Collected	\$ 630,629	\$ 597,320	\$ 1,747,849	\$ 651,686
Less: Commissions *	<u>27,089</u>	<u>23,389</u>	<u>52,435</u>	<u>27,984</u>
Taxes Due	\$ 603,540	\$ 573,931	\$ 1,695,414	\$ 623,702
Taxes Paid	603,644	571,876	1,694,869	623,520
Refunds (Current and Prior Year)	<u>193</u>	<u>199</u>	<u>585</u>	<u>207</u>
Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ (297)</u>	<u>\$ 1,856</u>	<u>\$ (40)</u>	<u>\$ (25)</u>

* and ** See Next Page.

PENDLETON COUNTY
 LARK O'HARA, COUNTY SHERIFF
 SHERIFF'S SETTLEMENT - 2001 TAXES
 April 22, 2002
 (Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	1,808,188
3% on	\$	1,747,849
1.0% on	\$	61,447

** Special Taxing Districts:

Library District	\$	(5)
Health District		(3)
Extension District		6
Soil Conservation District		(1)
Mental Health District		(5)
Kenton Fire District		9
North Pendleton Fire District		<u>1,853</u>

Due Districts or (Refunds Due Sheriff)	\$	<u><u>1,855</u></u>
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The accompanying notes are an integral part of the financial statement.

PENDLETON COUNTY
NOTES TO FINANCIAL STATEMENTS

April 22, 2002

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of November 6, 2001, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$206,617 of public funds uninsured and unsecured.

PENDLETON COUNTY
 NOTES TO FINANCIAL STATEMENT
 April 22, 2002
 (Continued)

Note 2. Deposits (Continued)

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of November 6, 2001.

	<u>Bank Balance</u>
Insured by FDIC	\$ 100,000
Collateralized with securities held by pledging depository institution in the county official's name	2,000,000
Uncollateralized and uninsured	<u>206,617</u>
Total	<u><u>\$ 2,306,617</u></u>

Note 3. Tax Collection Period

Property Taxes

The real and personal property tax assessments were levied as of January 1, 2001. Property taxes were billed to finance governmental services for the year ended June 30, 2002. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 24, 2001 through April 22, 2002

Note 4. Interest Income

The Pendleton County Sheriff earned \$5,668 as interest income on 2001 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Pendleton County Sheriff collected \$20,842 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Pendleton County Sheriff collected \$508 of advertising costs and \$101 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office. The Sheriff collects advertising costs and fees and deposits them directly into the fee account. Advertising costs are paid to the county directly from the fee account.

PENDLETON COUNTY
NOTES TO FINANCIAL STATEMENT
April 22, 2002
(Continued)

Note 7. Unrefundable Duplicate Payments And Unexplained Receipts Should Be Escrowed

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys. After seven years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer. For the 2001 taxes, the Sheriff had \$184 in unrefundable duplicate payments and unexplained receipts. Therefore, the Sheriff should send a written report to the Treasury Department.

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COMMENT AND RECOMMENDATION

PENDLETON COUNTY
LARK O'HARA, COUNTY SHERIFF
COMMENT AND RECOMMENDATION

April 22, 2002

STATE LAWS AND REGULATIONS:

The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$206,617 To Protect Deposits

On November 6, 2001, \$206,617 of the Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

Sheriff's Response:

Taken care of.

PRIOR YEAR:

There were no prior year comments.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

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Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Pendleton County Sheriff's Settlement - 2001 Taxes as of April 22, 2002, and have issued our report thereon dated November 8, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Pendleton County Sheriff's Settlement - 2001 Taxes as of April 22, 2002 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying comment and recommendation.

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$206,617 To Protect Deposits

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Pendleton County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
November 8, 2002

